

Minutes of the Meeting of the Lottery Advisory Commission  
March 18, 2004

Attendance

A meeting of the Lottery Advisory Commission was held at 10:00 a.m. to 12:00 noon on Thursday, March 18, 2004, in the Conference Room of the Office of the Attorney General in the State Capitol in Bismarck. Representing the Commission were Chairman RaeAnn Kelsch, Representative Lois Delmore, Senator Jerry Klein, Mr. Laurel Thoreson, and Ms. Darlene Watne. Mr. Chuck Keller, Director, Ms. Danielle Schaefer, Administrative Assistant, of the North Dakota Lottery, Ed Stefan (Chief Information Officer) of the Multi-State Lottery Association, and Cherie Duncan (Project Manager) of Scientific Games International, Inc. (SciGames) participated in the meeting.

Commissioner Delmore made a motion to approve the minutes of the January 28, 2004, meeting. Commissioner Thoreson seconded the motion. The motion passed 5-0. Commissioner Delmore made a motion to approve the minutes of the January 28, 2004, executive session. Commissioner Klein seconded the motion. The motion passed 5-0.

Mr. Keller reported on the status of the attached project plan for developing and implementing the lottery. Item 9 is ongoing since we will always be issuing newsletters and news releases. Items 22 and 24 are ongoing.

Items 26 through 30 are in process and will be concluded this week. Regarding item 26, the Lottery presently does not have custody of the web domain sites on four "dot.com" and four "dot.net" sites. This is being addressed. Regarding item 27, SciGames will train Lottery staff on the game management system. Item 28 is an ongoing process as SciGames will provide additional training for retailers who request it. Mr. Keller reported that during February 27 through March 5, SciGames conducted 19 sessions of chain store training involving 16 corporate chains. Item 29 is still in process since telecommunications network devices were still being installed and tested.

Mr. Stefan addressed item 30. He stated that MUSL's requirements fall into three categories: 1) a structure compliance document generally known as MUSL Rule 2; 2) confidential standards document that relates to validation techniques; and 3) acceptance testing. Members of MUSL are subject to a compliance review biannually to ensure that there is continued compliance with standards.

Mr. Stefan stated that on January 7, 2004, MUSL's membership voted on a complete restructure of established standards. The MUSL Board decided that the new standards must be complied with by July 5, 2004. He stated that for the Lottery's go-live date, the Lottery must comply with the present standards, not future standards. Mr. Stefan stated that the Lottery must resolve 6 items that are out of compliance -- 4 low risk and 2 medium risk. There is an active plan in place for five of the items. The one remaining item relates to ensuring there is total separation of the Montana and North Dakota gaming systems should an imbalance issue exist. SciGames has a solution to address the North Dakota side, and is working to address the Montana side.

There are 19 additional items, ranging from low to high risk, that need to be resolved by July 5. Also, there are 14 recommended items to address that are not related to present or future required standards. SciGames is responsible for addressing several of the items. Mr. Stefan stated that if a member lottery is having a problem complying, the lottery must seek a specific extension to comply.

Mr. Stefan indicated that the MUSL rules have been static for several years. The standards change as often as the Board believes it is necessary.

Mr. Stefan stated that the Board consists of the directors from each member lottery. Mr. Keller is on the Board by the nature of his position. There are about six subcommittees, also comprised of directors. They are formed as a result of a stated interest or previous experience that a director has. Each committee has a director from multi-state lottery on it.

Mr. Keller stated that of the 6 items, 4 of them relate to Scientific Games and 2 with the Lottery. SciGames must adequately protect its network level in Helena, MT, which involves reconfiguring the IP addresses on its router for its switches. SciGames has already attested to MUSL that it has been done. Another item is separating the operators in Montana should either the North Dakota lottery or the Montana lottery go into lockdown. The operations manager from North Dakota has proposed a solution for us that MUSL has accepted, but Montana also needs its own separate solution. A third item is that the windows are not adequately covered to enable secure lockdowns. There can be no visual sight between North Dakota's segregated area and Montana's segregated area, so some type of covering on the windows needs to be in place to ensure that the operators cannot see each other. SciGames stated that shades have been purchased but not put up yet.

Mr. Keller stated that the Lottery needs a procedure in place regarding drawing all the blinds before going into lockdown. Another item that needs to be addressed is the ticket stock cage. SciGames needs to have its vendor bring in more chain link fence at its repair depot to extend the fence to the ceiling to prevent anyone from climbing up and over the fence to get into the ticket stock room. SciGames stated they have contacted the vendor and it will be completed later this week.

Mr. Keller stated the last item is developing a plan to ensure that ticket stock is not accessible to unauthorized parties. No North Dakota production ticket stock should be in Montana. An agreement will be reached with Montana to ensure that when they perform their quarterly observation of the Montana data center, they do not also see North Dakota production ticket stock.

Ms. Duncan stated this is her first project with SciGames and everyone is very impressed with how well the lottery has been going. She stated this is mostly due to how well Mr. Keller's team has worked with them. SciGames has been asked to target getting 387 retailers up by March 25. There are a couple that may not be live at that time, and one retailer has asked for us to wait until June because their facility is not ready. The Lottery is deploying 8 additional terminals, so that brings the total to 396 retailers. As soon as the lottery is up, SciGames' field technicians will start installing the next eight. There are about

3 sites that require digging to put in a pole to mount the satellite. The frozen ground has impeded installations. There are 21 sites that had not yet had satellites installed.

There are 300 out of a 387 total terminals that are presently communicating with the central computer center located in Helena, MT. In the next 4 days, SciGames' field technicians will visit every retailer to ensure that terminals are properly communicating, answer questions, address concerns, and do additional training as necessary. Design work has started for Wild Card 2 and Hot Lotto and the target launch date is mid-June.

Commissioner Klein asked what the Lottery's plan was on granting future licenses for lottery terminals. Mr. Keller stated that turnover is expected, especially in some of the more saturated areas. There is a provision in the rules whereby if a site is not providing the Lottery with a reasonable rate of return, a sales quota will be placed on those sites. If the site does not voluntarily relinquish the license, the license will not be renewed if the sales quota is not met. Mr. Keller stated that retailers should apply by late summer for the new licensing year beginning October 1. The law prohibits a retailer from reapplying for a license within one year after the retailer's application was denied. We did not deny any applications except for those that were disqualified because of a poor credit history or a criminal history record. The other applications are being held in abeyance pending available terminals.

Commissioner Delmore expressed appreciation on behalf of the Commission for all of the hours Mr. Keller has put in and the extra things he has done to make the Lottery successful.

The Commission discussed requesting permission from Mr. Keller to allow only the Commission members' common household members to buy lottery tickets.

Mr. Keller introduced Tammy Backhaus and Eileen Walsh to the Commission. Ms. Walsh handed out various items to show what has been done regarding advertising and marketing, including a timetable for the launch, ads that were placed in every weekly and daily newspaper, and the game brochure. Because of a limited budget, marketing efforts have focused around the terminal. She expects nice crowds at each launch location. There will be a staff and/or a Commission member at each of the ceremonies. Mr. Keller and Attorney General Stenehjem will attend the Fargo and Grand Forks ceremonies. Ms. Walsh stated that Lady Luck would arrive in Fargo and Grand Forks in a black Volkswagen with powerballs on it.

Mr. Keller stated that the terminal at the Fargo site would be activated at 8:30 a.m. on March 25. The rest of the terminals in Fargo and West Fargo will be activated at 9:00 a.m. Grand Forks and the rest of the terminals in the state will be activated at 11:15 a.m. He offered to prepare a script for Attorney General Stenehjem to use at the launch ceremonies. The Commission asked Mr. Keller to prepare a script for their use, too.

Mr. Keller stated that SciGames has prepared a statement that will be read by their representatives at each of the launch sites.

Mr. Keller informed the Commission about the mistake on printing the toll-free number on the terminal stickers. He stated that the stickers would be corrected and replaced.

Attorney General Stenehjem complimented the Lottery staff and the Commission for their work and efforts.

Commissioner Klein asked if the copyright issue with the Virginia Lottery has been resolved. Mr. Keller stated a letter was being sent to the Virginia Lottery today to address the issue. From North Dakota Lottery's perspective, the issue is a non-issue. Attorneys from the MUSL have also studied the issue. Mr. Keller shared the Virginia Lottery's letter and his response with the Commission. He stated that the Virginia Lottery is claiming a common law copyright interest in Lady Luck. However, it was not the first state lottery that used Lady Luck. Two years before the Virginia's Lottery, the Washington Lottery used Lady Luck. Mr. Keller believes that the North Dakota Lady Luck theme is significantly different than the Virginia Lottery's concept and, thus, there are no copyright issues. Virginia has stated that as long as our Lady Luck character is significantly different, it is fine and they wish us luck and success in the launch of our lottery.

The next Commission meeting will be in about two weeks, possibly by conference call.

Commissioner Thoreson made a motion to adjourn the meeting. Commissioner Klein seconded the motion. The motion passed.